CANSTAR RESOURCES INC.

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

(EXPRESSED IN CANADIAN DOLLARS)

CANSTAR RESOURCES INC.

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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MNP LLP

Independent Auditor's Report

To the Shareholders of Canstar Resources Inc.

We have audited the accompanying financial statements of Canstar Resources Inc., which comprise the statement of financial position as at June 30, 2013, and the statements of operations and comprehensive loss, cash flows, changes in equity, and interest in exploration properties and deferred exploration expenditures for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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P: 416.626.6000 F: 416.626.8650 MNP.ca

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canstar Resources Inc. as at June 30, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements as at June 30, 2012 and for the year then ended were audited by MSCM LLP of Toronto, Canada, prior to its merger with MNP LLP. MSCM LLP expressed an unmodified opinion on those statements on October 17, 2012.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
October 10, 2013

MNP LLP

CANSTAR RESOURCES INC.
STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)
AS AT

	June 30, 2013 $	June 30, 2012 $
ASSETS		
CURRENT		
Cash and cash equivalents	1,574,609	930,715
Amounts receivable and prepaid expenses	17,802	9,117
TOTAL CURRENT ASSETS	1,592,411	939,832
EQUIPMENT (Note 5)	576	720
INTEREST IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Note 4)	1,580,170	1,086,274
TOTAL ASSETS	3,173,157	2,026,826
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Notes 10 and 13)	155,787	70,282
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 6)	10,762,607	9,308,861
WARRANTS (Note 6)	8,600	243,834
SHARE-BASED PAYMENTS RESERVE (Note 6)	708,899	545,750
DEFICIT	(8,462,736)	(8,141,901)
TOTAL SHAREHOLDERS' EQUITY	3,017,370	1,956,544
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3,173,157	2,026,826

COMMITMENTS AND CONTINGENCIES (Notes 4 and 13)

APPROVED ON BEHALF OF THE BOARD:

Signed W. Deluce, Director

Signed J. E. Hurley, Director

See accompanying notes to the financial statements.

CANSTAR RESOURCES INC.

STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED JUNE 30,

	2013 $	2012 $
OPERATING EXPENSES		
Share-based payments (Note 6(c))	212,259	276,766
Professional fees (Note 10)	123,679	81,644
Transfer agent and filing fees	42,262	33,496
General and office expenses	41,497	4,938
Rent (Note 10)	9,973	7,540
Travel	9,296	-
Shareholder information	2,516	16,436
Interest and bank charges	470	431
Depreciation	144	180
Loss before other income, recovery of flow-through indemnification, and loss on marketable securities	442,096	421,431
Other income	-	(923)
Recovery on flow-through indemnification (Note 13)	-	(127,881)
Loss on marketable securities	-	50,691
NET LOSS FOR THE YEAR	442,096	343,318
Items that will subsequently be reclassified to operations		
Unrealized loss on marketable securities	-	13,191
Realized loss on marketable securities	-	(50,691)
COMPREHENSIVE LOSS FOR THE YEAR	442,096	305,818
NET LOSS PER SHARE – Basic and diluted (Note 12)	0.01	0.00
WEIGHTED AVERAGE NUMBER OF SHARES – Basic and Diluted	80,065,471	72,653,941

STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED JUNE 30,

	2013 $	2012 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) for the year	(442,096)	(343,318)
Charges not involving cash:		
Share-based payments	212,259	276,766
Loss on sale of marketable securities	-	50,691
Recovery on flow-through indemnification	-	(127,881)
Depreciation	144	180
	(229,693)	(143,562)
Changes in non-cash working capital balances:		
Decrease (increase) in amounts receivable and prepaid expenses	(8,685)	12,506
Increase (decrease) in accounts payable and accrued liabilities	36,969	(6,269)
Cash flows (used in) operating activities	(201,409)	(137,325)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from private placement	-	1,050,000
Share issue costs	-	(60,868)
Exercise of options	100,000	128,750
Exercise of warrants	1,070,934	-
Cash flows from financing activities	1,170,934	1,117,882
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of marketable securities	-	44,309
Receipt of government junior exploration assistance (Note 4(b)(i))	100,000	-
Proceeds received from joint venture partner (Note 4(b)(i))	150,000	-
Interest in exploration properties and deferred exploration expenditures	(575,631)	(483,196)
Cash flows (used in) investing activities	(325,631)	(438,887)
Increase in cash and cash equivalents	643,894	541,670
Cash and cash equivalents, beginning of year	930,715	389,045
Cash and cash equivalents, end of year	1,574,609	930,715
SUPPLEMENTAL INFORMATION		
Change in accrued exploration property and deferred exploration expenditures	48,537	(163,379)
Share-based payments capitalized to interest in exploration properties and deferred exploration expenditures (Note 6(c))	95,129	-
Shares issued for interest in exploration properties (Note 4(b)(i))	16,000	-
Warrants issued for interest in exploration properties (Note 4(b)(i))	8,600	-
CASH AND CASH EQUIVALENTS		
Cash	273,687	329,793
Cash equivalents	1,300,922	600,922
	1,574,609	930,715

See accompanying notes to the financial statements.

STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED JUNE 30,

	Capital Stock $	Warrants $	Share-based Payments Reserve $	Accumulated Other Comprehensive Loss $	Deficit $	Total $
Balance, June 30, 2011	8,319,089	-	542,259	(37,500)	(7,956,134)	867,714
Share-based payments	-	-	276,766	-	-	276,766
Unrealized loss on marketable securities	-	-	-	(13,191)	-	(13,191)
Issuance of units in private placement	791,000	259,000	-	-	-	1,050,000
Share issue costs	(45,702)	(15,166)	-	-	-	(60,868)
Exercise of stock options	244,474	-	(115,724)	-	-	128,750
Expiry of options	-	-	(157,551)	-	157,551	-
Realized loss on marketable securities	-	-	-	50,691	-	50,691
Net loss for the year	-	-	-	-	(343,318)	(343,318)
Balance, June 30, 2012	9,308,861	243,834	545,750	-	(8,141,901)	1,956,544
Share-based payments	-	-	307,388	-	-	307,388
Issuance of shares for exploration property (note 4(b))	16,000	-	-	-	-	16,000
Issuance of warrants for exploration property (note 4(b))	-	8,600	-	-	-	8,600
Exercise of stock options	180,291	-	(80,291)	-	-	100,000
Expiry of options	-	-	(63,948)	-	63,948	-
Exercise of warrants	1,257,455	(186,521)	-	-	-	1,070,934
Expiry of warrants	-	(57,313)	-	-	57,313	-
Net loss for the year	-	-	-	-	(442,096)	(442,096)
Balance, June 30, 2013	10,762,607	8,600	708,899	-	(8,462,736)	3,017,370

See accompanying notes to the financial statements.

STATEMENTS OF INTEREST IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

(EXPRESSED IN CANADIAN DOLLARS)

FOR THE YEARS ENDED JUNE 30,

	Slate Bay Property $	Mary March Properties $	McFaulds Lake Property $	Total $
PROPERTY ACQUISITION COSTS				
Balance, June 30, 2011 and 2012	-	41,284	-	41,284
DEFERRED EXPLORATION COSTS				
Balance, June 30, 2011	-	725,173	-	725,173
Administrative	-	22,807	-	22,807
Drilling	-	6,604	-	6,604
Field supplies	-	1,121	-	1,121
Project management and geological consulting	-	98,364	-	98,364
Geophysics and exploration	-	200,159	-	200,159
Legal (recovery)	-	(19,287)	-	(19,287)
Travel	-	10,049	-	10,049
Balance, June 30, 2012	-	1,044,990	-	1,044,990
Total, June 30, 2012	-	1,086,274	-	1,086,274
PROPERTY ACQUISITION COSTS				
Balance, June 30, 2012	-	41,284	-	41,284
Incurred	-	24,600		24,600
Balance, June 30, 2013	-	65,884	-	65,884
DEFERRED EXPLORATION COSTS				
Balance, June 30, 2012	-	1,044,990	-	1,044,990
Access costs	-	86,353	-	86,353
Administrative	-	10,892	-	10,892
Assaying	-	2,398	-	2,398
Drilling	-	305,097	-	305,097
Field costs	-	1,524	-	1,524
Field supplies	-	17,625	-	17,625
Project management and geological	-	128,142	-	128,142
Geophysics and exploration	-	23,902	-	23,902
Labour and supervision	-	66,978	-	66,978
Legal	-	68,203	-	68,203
Travel	-	8,182	-	8,182
Government junior exploration assistance	-	(100,000)	-	(100,000)
Reimbursement from Joint Venture partner	-	(150,000)	-	(150,000)
Balance, June 30, 2013	-	1,514,286	-	1,514,286
Total, June 30, 2013	-	1,580,170	-	1,580,170

See accompanying notes to the financial statements.

1. NATURE OF OPERATIONS

Canstar Resources Inc. (the "Company" or "Canstar") was formed by amalgamation on April 5, 2005. The Company is publicly traded with its shares listed on the Toronto Stock Exchange for venture issuers. The Company's registered and head office is located at 56 Temperance Street, Suite 1000, Toronto, Ontario M5H 3V5.

The financial statements were approved by the Board of Directors on October 10, 2013.

The Company is in the process of exploring its exploration properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the carrying values of exploration properties and deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves, the preservation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing necessary to complete development of the properties, and the future profitable production therefrom or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

As at June 30, 2013, the Company had a deficit of $8,462,736 (2012 - $8,141,901) and working capital of $1,436,624 (2012 - $869,550). The Company's ability to continue operations and fund its future exploration property expenditures is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Because of this uncertainty there is some doubt about the ability of the Company to continue as a going concern. These financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. BASIS OF PREPARATION

Statement of Compliance
These financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These financial statements have been prepared in compliance with IFRS and in accordance with the accounting policies described in Note 3, Summary of Significant Accounting Policies. The policies set out below were consistently applied to all the periods presented, unless otherwise noted.

Basis of Measurement
These financial statements are prepared on the historical cost basis, except for marketable securities, which are stated at their fair value. In addition, these financial statements are prepared using the accrual basis of accounting except for cash flow information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the years ended June 30, 2013 and 2012.

Functional and presentation currency
The Company's presentation and functional currency is the Canadian dollar. The Company does not have any foreign operations. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at period end exchange rates are recognized in operations.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and balances with banks and short-term investments with original maturities of ninety days or less.

Income taxes
Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income. Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years. Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Loss per share
Loss per share is based on the weighted average number of common shares of the Company outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the period, if dilutive. In the Company's case, diluted loss per share is the same as basic loss per share for the periods presented as there were no potentially dilutive securities during the years ended June 30, 2013 and 2012.

Flow-through shares
The Company finances a portion of its exploration and evaluation activities through the issuance of flow-through shares. Under the terms of the flow-through common share issues, the tax attributes of the related expenditures are renounced to investors. On the date of issuance of the flow-through shares, the premium relating to the proceeds received in excess of the fair value of the Company's common shares is allocated to liabilities. The premium liability is reduced pro-rata based on the percentage of flow-through expenditures renounced in comparison to renunciations required under the terms of the flow-through share agreement, provided the Company has unused tax benefits on loss carry forwards and tax pools in excess of book value available for deduction. The reduction to the premium liability in the period of renunciation is recognized through operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments
Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are measured at fair value through profit or loss ("FVTPL"). These instruments are measured at fair value with subsequent changes in fair value recognized in operations. The Company's cash and cash equivalents are classified as FVTPL.

Financial assets that have a fixed maturity date and fixed or determinable payments, where the Company intends and has the ability to hold the financial asset to maturity are classified as held-to-maturity and are measured at amortized cost using the effective interest rate method. Any gains and losses arising from the sale of held-to-maturity financial assets are recognized in operations. As at June 30, 2013 and 2012, the Company has no held-to-maturity financial assets.

Items classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are recognized in operations. The Company's amounts receivable are classified as loans and receivables. The estimated fair values of these financial instruments approximate their carrying values because of the limited terms of these instruments.

Available-for-sale assets are those financial assets that are not classified as FVTPL, held-to-maturity or loans or receivables, and are carried at fair value. Any gains or losses arising from the change in fair value are recorded as other comprehensive income. Available-for-sale investments are written down to fair value through operations whenever it is necessary to reflect other than temporary impairment. Cumulative gains and losses arising upon the sale of the instrument are included in operations. As at June 30, 2013 and 2012, the Company had no available-for-sale financial assets.

Financial liabilities that are not measured at fair value through profit or loss are classified as other financial liabilities, and are carried at amortized cost using the effective interest method. Any gains or losses arising from the realization of other financial liabilities are recognized in operations. The Company has classified accounts payable and accrued liabilities as other financial liabilities. Due to their short-term natures, the fair values of these financial instruments approximate their carrying values.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At June 30, 2013, the Company's financial instruments that were carried at fair value consisted of cash equivalents of $1,300,922 (2012 - $600,922) that were classified as Level 1 within the fair value hierarchy.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the assets have been negatively impacted. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of the impairment and the loss is recognized in operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)
If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in operations.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairments previously recognized in operations, is transferred from equity to operations. Reversals in respect of equity instruments classified as available-for-sale are not recognized in operations.

Impairment of non-financial assets
The carrying values of equipment are assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. This generally results in the Company evaluating its non-financial assets on a geographical or licence basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to operations so as to reduce the carrying amount to its recoverable amount.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in operations.

Share-based payments
Equity-settled stock-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity settled stock-based transactions are set out in the stock option note.

The fair value is measured at the grant date and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in operations such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)
Equity-settled stock-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Exploration properties and deferred exploration expenditures
Once a licence to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized to exploration properties and deferred exploration expenditures. Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Purchased exploration and evaluation assets are recognized as assets at their cost of acquisition or at fair value if purchased as part of a business combination. Capitalized exploration and evaluation costs are considered to be intangible assets. These assets are not depreciated as they are not currently available for use.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction in progress.

Mineral reserves and capitalized mine development expenditures are, upon commencement of production, depreciated using a unit of production method or are written off if the property is abandoned.

An impairment review of exploration and evaluation assets is performed, either individually or at the cash-generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is recognized in operations as an impairment loss, in the financial year in which this is determined. Exploration properties and deferred exploration expenditures are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions below is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

Equipment
Equipment is measured at cost less accumulated depreciation and accumulated impairment losses. The cost of equipment comprises its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated decommissioning and restoration costs associated with the asset. Equipment is depreciated on a diminishing balance basis at 20%.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

General

Provisions are recognized when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in operations, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, dismantling operating facilities, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the exploration or production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related exploration and evaluation asset to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in operations as a finance cost. Additional disturbances or changes in rehabilitation costs are recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in operations.

The Company does not currently have any such significant legal or constructive obligations and therefore no decommissioning liabilities have been recorded as at June 30, 2013 and 2012.

Critical judgements and estimation uncertainties

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets' carrying values and impairment charges

In determining whether any impairment losses have been incurred, management assesses the higher of the asset's fair value less costs to sell and its value in use for non-financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at the end of each reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Critical judgements and estimation uncertainties (Continued)

Assets' carrying values and impairment charges (Continued)

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets.

Capitalization of deferred exploration costs

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

Estimation of decommissioning and restoration costs and the timing of expenditure

Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

New accounting standards recently adopted

IFRS 7 *Financial Instruments - Disclosures* ("IFRS 7") was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 were effective for the Company's annual period beginning on July 1, 2012. The amendments to IFRS 7 did not have a material impact on its financial statements.

IAS 1 *Presentation of Financial Statements* ("IAS 1") was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US Generally Accepted Accounting Principles ("US GAAP") standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 were effective for annual the Company's period beginning on July 1, 2012. The Company determined that the impact of the amendment did not have a material impact on its financial statements, although it did affect disclosure in the Statements of Operations and Comprehensive Loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New accounting standards recently adopted (continued)

Future Accounting Changes

New IFRS Standards Not Yet Adopted

The Company has not yet adopted certain new IFRS standards, amendments and interpretations to existing standards, which have been published but are only effective in future periods. These include:

IFRS 9 *Financial Instruments* ("IFRS 9") was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for the Company's accounting periods beginning on July 1, 2015, with earlier adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 9 on its financial statements.

IFRS 13 *Fair Value Measurement* ("IFRS 13") converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for the Company's annual periods beginning on July 1, 2013. The Company has not yet determined the impact of IFRS 13 on its financial statements.

IFRS 10 *Consolidated Financial Statements* ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on July 1, 2013. The Company has not yet determined the impact of IFRS 10 on its financial statements.

IFRS 11 *Joint Arrangements* ("IFRS 11") replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening deficit at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on July 1, 2013. The Company has not yet determined the impact of IFRS 11 on its financial statements.

4. INTEREST IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

The Company has interests in exploration properties in the McFauld's Lake area, and McDonough Townships in Ontario, Canada, and in the Buchans area of Newfoundland, Canada. Due to disappointing exploration results and/or lack of a current exploration plan or recent work, all properties except Mary March have been written off for accounting purposes.

a) Slate Bay Property

The Slate Bay Property is comprised of eight contiguous patented claims located approximately 10 kilometres north of the town of Red Lake, Ontario. The Company earned a 75% interest in the property pursuant to an option and joint venture participation agreement entered into with Luxor Enterprises Inc. ("Luxor") on February 4, 2002.

The Company has attempted to joint venture this property without success. Accordingly, the property has been written off although the Company still retains its interest.

b) Mary March Properties

(i) Xstrata Joint Venture

The Company entered into an option and Joint Venture Agreement with Freeport-Mcmoran of Canada Limited ("FMCL") formally known as Phelps Dodge Mining Co. ("Phelps") whereby the Company earned a 50% interest in the Mary March property located at Buchans Junction in central Newfoundland. The remaining 50% interest in the property is held by Xstrata Canada Corporation ("Xstrata"). The Company has a first right of refusal on Xstrata's 50% interest, should they wish to sell. The Company, combined with the $750,000 spent by FMCL, had completed the necessary exploration expenditures to earn a 50% interest in the property. Exploration of the property was held up for approximately 10 years due to a title dispute that was resolved in 2012 in the Company's favour by the Newfoundland and Labrador Supreme Court.
The property consists of 134 staked claims, two licenses, one lease and two patented lots. The Company earned its 50% interest in the property by delivering 100,000 common shares (issued and valued at $16,000) of the Company to FMCL and spending $755,000. As part of the agreement with FMCL, FMCL was also granted warrants (issued and valued at $8,600) for a further 100,000 shares of Canstar exercisable for a period not to exceed two years. These warrants could be exercised at a price of $0.25 per share until July 27, 2013 and $0.50 per share until July 27, 2014. The 100,000 warrants issued were assigned an aggregate fair value of $8,600 using the Black-Scholes valuation model with the following assumptions: expected dividend yield 0%, expected volatility 129%, risk-free rate of return 1.12% and expected life of 1.5 years.

Should the Xstrata Joint Venture thus established proceed to production, the Company would make a one-time cash payment to FMCL of $2 million within six months of the commencement of commercial production. Canstar's share of production would be subject to a one percent (1%) Net Smelter Return Royalty payable to FMCL.

The Company is the operator of the Xstrata Joint Venture and has the deciding vote in the event of a deadlock between the Company and Xstrata. A diamond drilling program was recently completed, with further exploration including drilling planned in fiscal 2014. During 2013, Xstrata contributed $150,000 (2012 - $nil) towards exploration costs of the Joint Venture.

During 2013, the Company received $100,000 (2012 - $nil) pursuant to the Junior Exploration Assistance program of the Department of Natural Resources of the Government of Newfoundland and Labrador. This program provides a grant of 50% of eligible costs incurred up to a maximum of $100,000 per project. The funds received have been recorded as a reduction to the carrying value of the Mary March Property.

4. INTEREST IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

b) Mary March Properties (Continued)

The Mary March Extension Property was acquired on April 7, 2009 and is comprised of 34 claims. The property is located immediately west and north of the Mary March Property.

In 2011, a previous option holder, Xmet Inc., completed two drill holes on the property and decided to discontinue the option agreement. Canstar holds 100% interest in the property, which has been written off for accounting purposes.

c) McFaulds Lake Properties

(i) McFaulds One

During the year ended January 31, 2004, the Company acquired a 100% interest, by staking, in 32 contiguous claim units located in the McFauld's Lake area of the James Bay Lowlands, Northern Ontario.

(ii) McFaulds Three

The McFauld's Three Property is located in the McFauld's Lake area of northwestern Ontario. The property is comprised of 6 contiguous claim units in three mineral licenses.

In fiscal 2006, both McFauld's properties were written off for financial statement purposes due to disappointing exploration results. In fiscal 2008, the Company entered into an option agreement with New Klondike Exploration Ltd. (Formerly United Reef Ltd.) ("New Klondike") and Geocanex Ltd. ("Geocanex") covering the McFaulds One and Three properties. The agreement allowed New Klondike and the Company to each earn a 50% interest in the properties. Geocanex waived the onetime $25,000 payment and approximately $100,000 in expenditures that were remaining to be paid as per the agreement entered into in September 2004.

The Company received a cash payment of $50,000 and 2,500,000 New Klondike common shares (valued at $200,000) from New Klondike. New Klondike was required to incur exploration expenditures of $150,000 on the properties before December 31, 2008 ($108,266 incurred). Effective December 10, 2008, the Company entered into an amending agreement whereby it was agreed that New Klondike could vest a 45% interest in the claims based on exploration expenditures incurred of $108,266. The Company will maintain a 0.5% net smelter royalty on the properties, 0.25% of which can be purchased by New Klondike for $250,000. The amending agreement further provided that the claims would be operated as a joint venture thereafter with the Company holding a 55% interest.

The company has no immediate plans to explore the McFauld's properties. Accordingly all exploration costs related to the property were written off in fiscal 2011.

5. EQUIPMENT

	Office and field equipment
Cost	$
Balance, June 30, 2011, 2012 and 2013	8,261
Accumulated depreciation	
Balance, June 30, 2011	7,362
Depreciation	179
Balance, June 30, 2012	7,541
Depreciation	144
Balance, June 30, 2013	7,685
Carrying value	
At June 30, 2012	720
At June 30, 2013	576

6. CAPITAL STOCK, OPTIONS AND WARRANTS

a) Authorized

Unlimited number of common shares

b) Issued

82,856,381 common shares

Summary of changes in capital stock:

	Common Shares #	Amount $
Common shares		
Balance, June 30, 2011	68,826,713	8,319,089
Private placement	7,000,000	1,050,000
Share issue costs	-	(45,702)
Warrant valuation allocation	-	(259,000)
Exercise of stock options	875,000	244,474
Balance, June 30, 2012	76,701,713	9,308,861
Issued for property (Note 4(b)(i))	100,000	16,000
Exercise of warrants	5,354,668	1,070,934
Exercise of warrants – valuation allocation	-	186,521
Exercise of stock options	700,000	100,000
Exercise of stock options – valuation allocation	-	80,291
Balance, June 30, 2013	82,856,381	10,762,607

6. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)

b) Issued (Continued)

During the year ended June 30, 2012, the Company completed a non-brokered private placement financing comprising 7,000,000 units at $0.15 per unit for gross proceeds of $1,050,000, of which 2,000,000 were issued on a flow-through basis at no premium. Each unit consists of one common share and one common share purchase warrant.

Each whole purchase warrant entitled the holder to acquire one common share at $0.20 for a period of one year after closing (the "Warrant Term") provided, however, should the closing price of the common shares equal or exceed $0.30 for 20 consecutive trading days following four months and one day after issuance, Canstar could accelerate the Warrant Term to the date which is 30 days following the date a press release is issued by Canstar announcing the Warrant Term.

The grant date fair value of the warrants was estimated to be $243,834, net of share issue costs allocated to warrants of $15,166. The fair value of the warrants on the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 127%, risk-free interest rate of 0.98%, and expected life of 1 year.

c) Stock Options

The Company has granted options for the purchase of common shares to its directors, officers, and consultants. The aggregate number of common shares which may be issued under the stock option plan is 15,000,000. The options are non-assignable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the board of directors of the Company at the time of grant subject to all applicable regulatory requirements. As at June 30, 2013, the following stock options were outstanding:

Options Granted	Exercisable Options	Exercise Price	Expiry Date
#	#	$	
598,334	598,334	0.10	January 6, 2014
100,000	100,000	0.20	January 6, 2014
901,666	901,666	0.10	March 22, 2015
500,000	500,000	0.17	December 19, 2016
2,875,000	2,156,250	0.18	April 24, 2017
300,000	225,000	0.18	April 25, 2017
100,000	50,000	0.20	August 10, 2017
500,000	125,000	0.10	May 1, 2018
5,875,000	4,656,250		

The weighted average exercise price of the options outstanding and exercisable as at June 30, 2013 is $0.15 and $0.15 (2012 - $0.16 and $0.14) respectively. The weighted average remaining contractual life of options granted and exercisable as at June 30, 2013 is 3.17 years and 2.91 years (2012 – 3.31 years and 2.31) years respectively. The weighted average share price of the options exercised during the year was $0.14 (2012 - $0.15).

6. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)

c) Stock options (Continued)

A summary of changes in stock options is as follows:

	Number of Options #	Weighted Average Exercise Price $
Balance, June 30, 2011	4,875,000	0.13
Granted	3,675,000	0.16
Exercised	(875,000)	0.15
Expired	(1,150,000)	0.15
Balance, June 30, 2012	6,525,000	0.16
Granted	600,000	0.12
Expired	(550,000)	0.15
Exercised	(700,000)	0.14
Balance, June 30, 2013	5,875,000	0.15

Options granted to directors, officers and consultants vest as to 25% at issuance, with a further 25% vesting thereafter every 6 months.

The grant date fair value of stock options granted during the years ended June 30, 2013 and 2012 was estimated using the Black-Scholes option pricing model with the following assumptions:

(i)On December 19, 2011, the Company granted 500,000 stock options to a consultant of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $0.17 for a period of 5 years. The stock options vest at a rate of 25% on the date of grant and 25% after each of six, twelve and eighteen months. A fair value of $77,400 was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions: expected dividend yield of 0%; risk free interest rate of 1.25%; expected life of 5 years; and a volatility of 151%.

(ii) On April 24, 2012, the Company granted 2,875,000 stock options to directors, officers, employees, and consultants of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $0.18 for a period of 5 years. The stock options vest at a rate of 25% on the date of grant and 25% after each of six, twelve and eighteen months thereafter. A fair value of $471,500 was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions: expected dividend yield of 0%; risk free interest rate of 1.25%; expected life of 5 years; and a volatility of 150%.

(iii) On April 25, 2012, the Company granted 300,000 stock options to a consultant of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $0.18 for a period of 5 years. The stock options vest at a rate of 25% on the date of grant and 25% after each of six, twelve and eighteen months thereafter. A fair value of $48,905 was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions: expected dividend yield of 0%; risk free interest rate of 1.25%; expected life of 5 years; and a volatility of 150%.

6. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)

c) Stock options (Continued)

(iv) On August 10, 2012, the Company granted 100,000 stock options to a consultant of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $0.20 for a period of 5 years. The stock options vest at a rate of 25% on the date of grant and 25% after each of six, twelve and eighteen months thereafter. A fair value of $16,600 was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions: expected dividend yield of 0%; risk free interest rate of 1.36%; expected life of 5 years; and a volatility of 152%.

(v) On May 1, 2013, the Company granted 500,000 stock options to an officer of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $0.10 for a period of 5 years. The stock options vest at a rate of 25% on the date of grant and 25% after each of six, twelve and eighteen months thereafter. A fair value of $39,000 was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions: expected dividend yield of 0%; risk free interest rate of 1.15%; expected life of 5 years; and a volatility of 155%.

Included in the share-based payment expense for fiscal 2013 is $231,607 (2012 - $276,766). During 2013, $95,129 (2012 - $nil) of share-based payments were capitalized to deferred exploration and evaluation expenditures. Of the $95,129 capitalized during 2013, $25,853 is included in access costs and $69,276 is included in geological consulting.

(d) Share Purchase Warrants

A summary of changes in warrants is as follows:

	Number of Warrants #	Weighted Average Exercise Price $	Value $
Balance, June 30, 2011	-	-	-
Issued on private placement	7,000,000	0.20	259,000
Share issue costs	-	-	(15,166)
Balance, June 30, 2012	7,000,000	0.20	243,834
Issued (Note 4(b)(i))	100,000	0.25	8,600
Expired	(1,645,332)	0.20	(57,313)
Exercised	(5,354,668)	0.20	(186,521)
Balance, June 30, 2013	100,000	0.25	8,600

7. FINANCIAL INSTRUMENTS

Fair Value:
IFRS requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the statement of financial position date based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying values of the Company's short-term financial instruments, comprising cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities approximate their fair values.

8. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the years ended June 30, 2013 and June 30, 2012.

9. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures from the previous period.

Credit risk
The Company's credit risk is primarily attributable to cash and cash equivalents and receivables included in amounts receivable and prepaid expenses. The Company has no significant concentration of credit risk arising from operations. Financial instruments included in amounts receivable and prepaid expenses consist of goods and services tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable and prepaid expenses is remote.

Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2013, the Company had a cash and cash equivalents balance of $1,574,609 (2012 - $930,715) to settle current liabilities of $155,787 (2012 - $70,282). Given, the Company's cash reserves and planned expenditures, management believes the current liquidity risk is low. The Company's ability to continue operations and fund its exploration property expenditures, in the long term, is dependent on management's ability to secure additional financing. Management is continuing to pursue various financing initiatives in order to provide sufficient cash flow to finance operations as well as funding its exploration expenditures. The Company's financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

9. FINANCIAL RISK FACTORS (Continued)

Interest rate risk
The Company has cash and cash equivalents balances subject to interest. Management does not believe the Company is exposed to significant interest rate risk.

Foreign currency risk
The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company is not exposed to foreign exchange risk.

Price risk
The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Sensitivity analysis
Based on management's knowledge and experience in the financial markets, the Company believes the following movements are "reasonably possible" over a twelve-month period:

(i) Cash and cash equivalents are invested in a Canadian chartered bank or a financial institution controlled by a Canadian chartered bank. Sensitivity to a plus or minus 1% change in rates, based on the balance of cash and cash equivalents at June 30, 2013, would affect the net loss by plus or minus $15,700 during a twelve month period.

(ii) The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

10. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2013, the Company incurred $6,500 (2012 - $7,540) for rent charged by corporations of which the principal shareholder is a former director of the Company.

During the year ended June 30, 2013, the Company incurred $3,473 (2012 - $Nil) for rent charged by a corporation of which the Chairman of the Board and the President are directors of the Company. Included in accounts payable as at June 30, 2013 is $3,925 (2012 - $Nil) owed to this corporation. These amounts are non-interest bearing and unsecured, with no fixed terms of repayment.

The remuneration of directors and key management during the years ended June 30, 2013 and 2012, were as follows:

	June 30, 2013 ($)	June 30, 2012 ($)
Short-term benefits	17,901	-
Share-based payments	160,974	133,352
	178,875	133,352

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including directors (executive or non-executive) of the Company.

11. INCOME TAXES

a) The reconciliation of the income tax recovery, calculated using the combined Canadian federal and Ontario provincial statutory income tax rate of 26.5% (2012 – 27.25%).

	2013 $	2012 $
Loss before income taxes	(442,096)	343,318
Expected income tax (recovery)	(117,000)	(94,000)
Adjustments to benefit resulting from:		
Effect of share-based payments	56,000	76,000
Undeducted share issue costs	-	(17,000)
Tax rate changes and other adjustments	(50,000)	3,000
Change in tax benefits not recognized	111,000	32,000
Income tax expense	-	-

The 2013 statutory tax rate of 26.5% differs from the 2012 statutory tax rate of 27.25% because of the reduction in both federal and Ontario substantively enacted tax rates.

b) Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred income tax assets have not been recognized in respect to the following deductible temporary differences:

	2013 $	2012 $
Non capital loss carry-forwards	524,000	556,000
Capital loss carry-forwards	102,000	100,000
Mineral property costs	4,906,000	4,684,000
Share issue costs	38,000	52,000
Investment tax credits and other	88,000	88,000
	5,658,00	5,480,000

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

Capital losses may be carried forward indefinitely but may only be applied against income from capital gains.

11. DEFERRED INCOME TAXES (Continued)

Investment tax credits expire in 2029

The Company has Canadian development and exploration expenditure pools for tax purposes of approximately $6,208,000 at June 30, 2013 (2012 – $5,900,000) that may, in certain situations be applied to reduce taxable income in subsequent years.

The unamortized balance of share issue costs amounts to approximately $38,000 as of June 30, 2013 (2012 – $50,600) and will be deducted from taxable income (loss) from 2013 to 2016.

The remaining deductible temporary differences may be carried forward indefinitely.

Tax benefits from non-capital loss carry-forwards have not been recorded in the financial statements. These losses, which may reduce taxable income in future fiscal years, amount to approximately $524,000 and expire as follows:

Year	Amount $
2014	-
2015	-
2026	80,000
2027	101,000
2028	101,000
2029	102,000
2030	90,000
2031	36,000
2032	14,000
	524,000

12. NET LOSS PER SHARE

The calculation of basic and diluted loss per share for the years ended June 30, 2013 and 2012 was based on the net loss attributable to common shareholders of $442,096 and $343,318, respectively, and the weighted average number of common shares outstanding of 80,065,471 and 72,653,941, respectively.

13. COMMITMENTS AND CONTINGENCIES

a) Environmental Contingencies

The Company's exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

13. COMMITMENTS AND CONTINGENCIES (Continued)

b) Flow-through Expenditures

As at December 31, 2008, the Company was unable to complete the exploration expenditures within the required time periods to support flow-through deductions that were renounced to holders of flow-through shares. As a consequence of this shortfall in exploration expenditures, the Company was liable to reimburse the investors for income taxes and interest owing as a result of the reduced tax deduction. However, during the year ended June 30, 2012, the statutory period during which the Company was legally liable to indemnify investors lapsed and, therefore, a recovery was recorded in the year. Accordingly, the Company has reversed the remainder of the accrual of $127,881 as at June 30, 2012 as no further amounts are expected to be paid as a result of the income taxes and interest owing.

During the year ended June 30, 2012, the Company issued a total of 2,000,000 flow-through shares for proceeds of $300,000 that were renounced with an effective date of December 31, 2011. As of June 30, 2012, the Company had expended all of these flow-through funds.

The Company has indemnified the subscribers for any tax related amounts that become payable by the subscriber as a result of the Company not meeting its expenditure commitments.

14. SUBSEQUENT EVENT

Subsequent to June 30, 2013, 100,000 stock options were granted at an exercise price of $0.10 per common share. The options are exercisable for five years and vest quarterly over 18 months.